

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
L-03 H-02 PA-02 PRS-01 /100 W
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R 011307Z MAR 77
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 9966
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 THE HAGUE 1067

DPET PASS TREASURY AND COMMERCE

E.O. 11652: N/A
TAGS: EINV, ECON, NL
SUBJ: GON INTRODUCES BILL FOR INVESTMENT INCENTIVES

REF: A) 76 THE HAGUE 3248; B) THE HAGUE 418

1. SUMMARY: MINISTER OF ECONOMIC AFFAIRS LUBBERS ON FEB
17 PRESENTED TO PARLIAMENT HIS LONG AWAITED SELECTIVE INVEST-
MENT FUND (SEE REFS) AS THE INVESTMENT ACCOUNT BILL. THE
BILL WOULD REPLACE EXISTING INVESTMENT INCENTIVES WITH A
SYSTEM OF PREMIUMS OR SUBSIDIES FROM A FUND OF 13 BILLION
GUILDERS (\$1.00 EQUALS 2.5 GUILDERS) FOR THE PERIOD 1977-80.
THERE ARE TWO CATEGORIES OF PREMIUM: A BASIC PREMIUM PROVIDNG
MORE OR LESS FINANCIAL EQUIVALENT OF EXISTING INCENTIVES,
AND SUPPLEMENTAL "STEERING" PREMIUMS INTENDED TO PROVIDE
EXTRA SUPPORT FOR INVESTMENTS FURTHERING GOVERNMENT SOCIAL
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AND ECONOMIC POLICY OBJECTIVES. INITIAL IMPLEMENTATION
OF STEERING PREMIUMS WOULD BE LIMITED BECAUSE OF CONFLICTS
WITH EC OBLIGATIONS. PREMIUMS WOULD BE PAID AS TAX CREDITS
WITH IMPORTANT NEGATIVE CORPORATE INCOME TAX PROVISION.
GIVEN HEAVY PARLIAMENTARY SCHEDULE, PROSPECTS FOR PAS-
SAGE BEFORE ELECTIONS ARE UNCERTAIN AND PRESENT INCENTIVE
SYSTEM MAY HAVE TO REMAIN IN PLACE FOR AT LEAST REST OF

1977. END SUMMARY.

2. GENERAL AND MACROECONOMIC: THE INVESTMENT ACCOUNT BILL (WET INVESTERINGREKENING - WIR) AIMS TO REDUCE UNEMPLOYMENT TO 150,000 BY 1980, WHILE AT SAME TIME GIVING GON GREATER CONTROL OVER DIRECTION OF PRIVATE BUSINESS INVESTMENT IN NETHRLANDS. IT IS INTENDED TO REPLACE ALL EXISTING INVESTMENT INCENTIVES (INVESTMENT DEDUCTIONS, ACCELERATED DEPRECIATION) WITH SYSTEM OF PREMIUMS. HOWEVER SOME EXISTING INCENTIVES WILL REMAIN IN PLACE UNTIL CONFLICTS IN RELEVANT PROVISIONS OF WIR WITH TREATY OF ROME ARE RESOLVED. BILL EARMARKS PERCENTAGE OF INCOME AND CORPORATION TAX REVENUES FOR AN INVESTMENT ACCOUNT WHICH WILL TOTAL APPROIMATELY 13 BILLION GULDERS IN PERIOD 1977-80 (1977: 1.6 BILLIO, 1978: 3.1, 1979: 3.8, 1980: 4.3). EXISTING TAX INCENTIVES WOULD HAVE TOTALED FIVE BILLION GULDERS OVER THE SAME PERIOD. BILL PROVIDES TWO CATEGORIES OF PREMIUMS: BASIC PREMIUM PAYABLE ON ANY INVESTMENT (WITH A FEW EXCEPTIONS) WHICH WOULD BE ELIGIBLE FOR EXISTING TAX INCENTIVES, AND SUPPLEMENATAL PREMIUMS PAYABLE FOR INVESTMENTS MEETING CRITERIA FOR JOB CREATION, SMALLNESS OF SCALE, REGIONAL DEVELOPMENT, ECONOMIC RELOCATION, URBAN RENEWAL, ENERGY AND RAW MATERIAL SAVINGS, ENVIRONMENT, RESEARCH AND DEVELOPMENT AND RESTRUCTURING FOR IMPROVEMENT OF INTERNATIONAL DIVISION OF LABOR (READ EXPORT INTENSIVE). ONLY BASIC PREMIUM AND FIRST FOUR CATEGORIES OF SUPPLEMENTAL PREMIUMS ARE PLANNED FOR FIRST STAGE OF PROGRAM.

3. PAYMENT: PREMIUMS WOULD BE DISTRIBUTED THROUGH TAX UNCLASSIFIED

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SERVICE AS TAX CREDITS. WHEN FIRMS HAVE INSUFFICIENT PROFITS TO USE CREDIT OR HAVE LOSSES, CREDIT CAN BE TAKEN AS CASH REBATE. STATED OBJECTIVE IS TO PROVIDE EXTRA ADVANTAGE TO WEAK KFIRMS.

4. BASIC PREMIUMS: BASIC PREMIUM FOR ALL INVESTMENT WILL BE 11 PERCENT FOR BUILDINGS (EXCLUDING RESIDENTIAL CONSTRUCTION), SEVEN PERCENT FOR OTHER FIXED INSTALLATIOS IN OPEN AIR, SEVEN PERCENT FOR AIRCRAFT AND SEVEN PERCENT FOR OTHER INVESTMENT GOODS (MACHINERY AND EQUIPMENT). FOR PROFIT MAKING FIRMS, THESE AMOUNTS ARE EQUIVALENT TO THE DISCOUNTED VALUE OF PRESENT INVESTMENT DEDUCTIONS AND/OR ACCELERATED DEPRECIATION. UNDER SPECIAL ARRANGEMENTS, SHIPS ARE EXCLUDED FROM PREMIUMS UNTIL JULY 1, 1978, AFTER WHICH THEY WILL RECEIVE A BASIC PREMIUM OF 15 PERCENT.

5. SUPPLEMENTAL PREMIUMS: BILL INCLUDES FOUR SUPPLEMENTAL PREMIUMS, TWO OF WHICH WILL TAKE EFFECT IMMEDIATELY ON PASSAGE, ONE OF WHICH WILL BE ONLY PARTIALLY OPERATIVE

AND ONE OF WHICH WILL ONLY TAKE EFFECT AFTER CONSULTATION
WITH EC.

A. SMALL IS BEAUTIFUL: IN ORDER TO ENCOURAGE SMALL
FIRMS, INVESTMENTS BELOW 200,000 GULDERS WILL RECEIVE
ADDITIONAL TWO PERCENT PREMIUM. PREMIUM WILL BE ADJUSTED
DOWNWARDS GRADUALLY FOR INVESTMENTS SLIGHTLY OVER 200,000
GULDERS TO PREVENT SUDDEN DISCONTINUITIES.

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DEPT PASS TREASURY AND COMMERCE

B. BIG IS BEAUTIFUL: AS INCENTIVE TO JOB-CREATION
SUPPLEMENTAL PREMIUM OF 15,000 GULDERS PER JOB WILL BE
PAID FOR THOSE JOBS CREATED BY THAT PART OF ANY INDIVIDUAL
INVESTMENT ABOVE 15 MILLION GULDERS (OF WHICH FOUR MILLION
MUST BE BUILDING) UP TO MAXIMUM OF FOUR PERCENT OF INVEST-
MENT. THUS 30 MILLION GUILDER INVESTMENT EMPLOYING 100 MEN
WILL RECEIVE A PREMIUM OF 750,000 GULDERS. (HALF OF IN-
VESTMENT AND THUS 50 JOBS ABOVE 15 MILLION). INVESTORS
SEEKING THIS PREMIUM WOULD HAVE TO OBTAIN PRIOR APPROVAL
OF THE MIN OF ECON AFFAIRS.

C. REGIONAL DEVELOPMENT PREMIUMS: INVESTMENTS IN
NARROWLY SPECIFIED REGIONS WITH SERIOUS UNEMPLOYMENT PRO-

BLEMS WILL BE ENCOURAGED BY ADDITIONAL PREMIUMS OF 20 PERCENT FOR BUILDINGS AND 10 PERCENT FOR OTHER FIXED INSTALLATIONS IN OPEN AIR. BROADER REGIONS (THOSE CURRENTLY UNCLASSIFIED

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RENTLY ELIGIBLE FOR SPECIAL TAX DEDUCTIONS - MAINLY EXTREME NORTHERN AND SOUTHERN AREAS OF NETHERLANDS) MAY BECOME ELIGIBLE FOR EXTRA PREMIUMS OF 12 PERCENT ON BUILDINGS AND SIX PERCENT ON OTHER FIXED INSTALLATIONS IF GON CAN GAIN APPROVAL OF EC COMMISSION. MEANWHILE EXISTING TAX BENEFITS FOR THESE REGIONS WILL REMAIN.

D. ECONOMIC RELOCATION PREMIUMS: PREMIUMS AS HIGH AS 20 PERCENT FOR BUILDINGS AND TEN PERCENT FOR FIXED INSTALLATIONS IN OPEN AIR WILL BECOME AVAILABLE FOR INVESTMENTS MEETING CRITERIA UNDER GON PLANS FOR ACHIEVING BETTER GEOGRAPHIC DISTRIBUTION OF INDUSTRY AND POPULATION, IF EC APPROVES. CONDITIONS AND LEVELS OF PREMIUMS WOULD BE ESTABLISHED BY MINISTERIAL DECREE.

6. VARIABLE BASIC PREMIUMS: BILL PROVIDES FOR LIMITED VARIATION IN LEVEL OF BASIC PREMIUMS TO MEET CYCLICAL POLICY GOALS. MEMORANDUM ACCOMPANYING THE BILL NOTES GON'S INTENTION TO AMEND IT TO ALLOW USE OF VARIABLE BASIC PREMIUM. AMENDMENT WOULD ESTABLISH A PIVOTAL PREMIUM FROM WHICH EACH INDIVIDUAL FIRMS PREMIUM WOULD BE CALCULATED ON BASIS OF ITS EMPLOYMENT RECORD. THUS FIRM WITH RECORD OF INCREASING EMPLOYMENT WOULD RECEIVE HIGHER PREMIUM, WHILE ONE WITH DECLINING EMPLOYMENT WOULD RECEIVE SMALLER PREMIUM. GOVERNMENT IS CONSIDERING USE OF FIRMS WAGE BILL DEFLATED BY GENERAL WAGE INDEX AS MEASURE OF EMPLOYMENT FOR THIS PURPOSE.

7. OTHER ASPECTS: MAXIMUM TOTAL OF PREMIUMS OF ALL KINDS PERMITTED WOULD BE 50 PERCENT FOR BUILDINGS AND 25 PERCENT FOR FIXED INSTALLATIONS. ALL INFORMATION AVAILABLE SO FAR INDICATES THAT FOREIGN INVESTORS WOULD RECEIVE NATIONAL TREATMENT, WHICH HAS BEEN DUTCH PRACTICE IN THE PAST. (IN FACT, ABILITY TO TAKE TAX CREDITS AS CASH REBATE DURING INITIAL, OFTEN UNPROFITABLE YEARS OF NEW INVESTMENTS MAY GIVE FOREIGN INVESTORS NEW TO NETHERLANDS SPECIAL INCENTIVE). ALSO UNCLASSIFIED

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THOUGH GON HAD ORIGINALLY SET APRIL 1 AS TARGET DATE FOR IMPLEMENTATION OF SYSTEM, IT NOW CONCLUDES THAT THIS MAY BE PARLIAMENTARY IMPOSSIBILITY, AND ASKS IMPLEMENTATION AS

SOON AS POSSIBLE (BUT DEFINITELY THIS YEAR). AMOUNT OF
FUND ALLOCATED FOR 1977 SUGGESTS SOME DESIRE TO TRY TO
IMPLEMENT BEFORE ELECTIONS (SCHEDULED FOR MAY), BUT PAR-
LIAMENARY APPROVAL AT AN EARLY DATE IS BY NO MEANS
A CERTAINTY. EXISTING INCENTIVES WILL REMAIN IN EFFECT UNLESS
AND UNTIL BILL PASSED.

8. ECONOMIC IMPLICATIONS: IF IMPLEMENTED IN ITS PRESENT
FORM BASIC THRUST OF BILL WOULD BE TO CONTINUE EXISTING
INVESTMENT BENEFITS UNDER NEW ACCOUNTING SYSTEM. HOWEVER
NEGATIVE TAX ASPECT AND SOME OF SUPPLEMENTAL PREMIUMS MIGHT
PROVIDE INCENTIVE TO REDUCE EFFICIENCY OR TO CONTINUE
INEFFICIENT PRODUCTION AND TO RELY ON MORE LABOR INTEN-
SIVE PRODUCTION METHODS. IN DEVELOPED COUNTRY WITH AL-
READY HIGH UNIT LABOR COSTS RESULT WOULD TEND TO BE RE-
DUCTION IN COMPETITIVENESS AND CONSEQUENT LOSS OF EMPLOY-
MENT THROUGH SUBSTITUTION OF IMPORTS FOR DOMESTIC GOODS AND
LOSS OF EXPORT BUSINESS. PROPOSAL FOR VARIABLE PREMIUMS
BASED ON WAGE BILL WOULD AGGRAVATE PROBLEM BY REDUCING
INCENTIVES FOR FIRMS TO KEEP LABOR COSTS UNDER CONTROL.
WHETHER NET EFFECT ON EMPLOYEMTN WOULD BE POSITIVE OR
NEGATIVE IS AN OPEN QUESTION. "NEGATIVE TAX" ASPECT FOR
LOSS-MAKING FIRMS MAY BE MORE IMPORTANT IN SHORT RUN. MANY
FIRMS NOT ECONOMICALLY VIABLE WOULD BE GIVEN INCENTIVE TO
EXPAND, RATHER THAN RATIONALIZE OPERATIONS. GON MIGHT
THEN BE PLACED UNDER POLITICAL PRESSURE TO THROW GOOD MONEY
AFTER BAD TO PREVENT COLLAPSE AND LOSS OF JOBS. SIDE
EFFECT MIGHT BE TO ENHANCE ABILITY OF UNHEALTHY FIRMS TO
COMPETE WITH VIABLE ONES FOR FUNDS IN CAPIBAL MARKET. FINALLY,
IT REMAINS AN OPEN QUESTION WHETHER FIRMS, WITHOUT AN INCREASE
IN LVEL OF BASIC INCENTIGES, WILL ALTER INVESTMENT PLANS
SUFFICIENTLY TO ABOSRB ALL OF ADDITIONAL EIGHT BILLION GUILDERS
WHICH WOULD BE MADE AVAILABLE.

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Message Attributes

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